Supreme Court, U.S.
FILED
JUN - 7 2016
OFFICE OF THE CLERK

No. 15-777

IN THE

Supreme Court of the United States

SAMSUNG ELECTRONICS CO., LTD., SAMSUNG ELECTRONICS AMERICA, INC., AND SAMSUNG TELECOMMUNICATIONS AMERICA, LLC,

Petitioners,

v.

APPLE INC.,

Respondent.

ON WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF OF PUBLIC KNOWLEDGE, THE ELECTRONIC FRONTIER FOUNDATION, THE R STREET INSTITUTE, THE AMERICAN ANTITRUST INSTITUTE, AND IP JUSTICE AS *AMICI CURIAE* IN SUPPORT OF PETITIONERS

VERA RANIERI
ELECTRONIC FRONTIER FOUNDATION
815 Eddy Street
San Francisco, CA 94109
(415) 436-9333
vera@eff.org

CHARLES DUAN
Counsel of Record
PUBLIC KNOWLEDGE
1818 N Street NW, Suite 410
Washington, DC 20036
(202) 861-0020
cduan@publicknowledge.org

Counsel for amici curiae

TABLE OF CONTENTS

TABLE OF AUTHORITIES ii
INTEREST OF *AMICI CURIAE* 1
SUMMARY OF ARGUMENT 3
ARGUMENT 6

I. The Federal Circuit's Construction Is Not Mandated by the Text of Section 289 6

II. Section 289 Should Be Interpreted to Promote Fairness and Economic Efficiency Rather Than to Overcompensate One Party 8
   A. Alternate Interpretations Would Better Promote Innovation 9
   B. Economic Concerns with Holdup and Royalty Stacking Militate in Favor of an Alternate Interpretation 12

III. The Federal Circuit's Interpretation Invites an Industry of Counterproductive Patent Litigation 16
   A. Design Patents Are Ripe for Abuse, Especially with the Enticement of Total Profits 16
   B. Analogous Federal Circuit Rules Have Created Cottage Industries of Patent Litigation 21

IV. Section 289 Should Be Interpreted in a Way that Avoids Serious Constitutional Doubts 25
   A. Due Process May Disallow Certain Excessively High Damages Awards 26
   B. A Total Profits Award, Irrespective of Actual Harm, Potentially Violates These Due Process Principles 28
   C. Alternative Interpretations of Section 289 Avoid These Constitutional Doubts 31

CONCLUSION 33

TABLE OF AUTHORITIES

CASES

Alice Corp. Pty. Ltd. v. CLS Bank International,
134 S. Ct. 2347 (2014) 24

Apple Inc. v. Samsung Electronics Co.,
786 F.3d 983 (Fed. Cir. 2015) 7

Ashwander v. Tennessee Valley Authority,
297 U.S. 288 (1936) 32

Bilski v. Kappos,
561 U.S. 593 (2010) 23

BMW of North America v. Gore,
517 U.S. 559 (1996) 27, 29–31

Bonito Boats, Inc. v. Thunder Craft Boats, Inc.,
489 U.S. 141 (1989) 9

BP Lubricants USA Inc., In re,
637 F.3d 1307 (Fed. Cir. 2011) 23

Broadcom Corp. v. Qualcomm Inc.,
501 F.3d 297 (3d Cir. 2007) 13

Brooks Furniture Manufacturing, Inc. v. Dutailier International, Inc.,
393 F.3d 1378 (Fed. Cir. 2005), *overruled by Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014) 24

Commil USA, LLC v. Cisco Systems, Inc.,
135 S. Ct. 1920 (2015) 25

Commonwealth v. O'Laughlin,
830 N.E.2d 222 (Mass. 2005) 16

Cooper Industries, Inc. v. Leatherman Tool Group, Inc.,
532 U.S. 424 (2001) 27, 29

Crowell v. Benson,
285 U.S. 22 (1932) 32

Deshaney v. Winnebago County Department of Social Services,
489 U.S. 189 (1989) 26

eBay Inc. v. MercExchange, LLC,
547 U.S. 388 (2006) 13, 25

Ericsson, Inc. v. D-Link Systems, Inc.,
773 F.3d 1201 (Fed. Cir. 2014) 13

Forest Group, Inc. v. Bon Tool Co.,
590 F.3d 1295 (Fed. Cir. 2009) 3, 22–23

Garretson v. Clark,
111 U.S. 120 (1884) 10

Graham v. John Deere Co.,
383 U.S. 1 (1966) 9

Hooper v. California,
155 U.S. 648 (1895) 32

Immigration & Naturalization Service v. St. Cyr,
533 U.S. 289 (2001) 32

Impression Products, Inc. v. Lexmark International, Inc.,
No. 15-1189 (Mar. 21, 2016) 21

Integra Lifesciences I, Ltd. v. Merck KGaA,
331 F.3d 860 (2003), *vacated on other grounds*, 545 U.S. 193 (2005) 15

Kendall v. Winsor,
62 U.S. (21 How.) 322 (1859) 9

LaserDynamics, Inc. v. Quanta Computer, Inc.,
694 F.3d 1255 (Fed. Cir. 2012) 10

Lexmark International, Inc.
v. Impression Products, Inc.,
816 F.3d 721 (Fed. Cir. 2016) (en banc), *petition for cert. filed*, No. 15-1189 (Mar. 21, 2016) . . 21

Medtronic, Inc. v. Mirowski Family Ventures, LLC,
134 S. Ct. 843 (2014) 20

Merck KGaA v. Integra Lifesciences I, Ltd.,
545 U.S. 193 (2005) 15

Microsoft Corp. v. Motorola, Inc.,
795 F.3d 1024 (9th Cir. 2015) . . 13–14

National Federation of Independent Business
v. Sebelius,
132 S. Ct. 2566 (2012) 32

Nike Inc. v. Wal-Mart Stores, Inc.,
138 F.3d 1437 (Fed. Cir. 1998) 6, 20

Nordock, Inc. v. Systems Inc.,
803 F.3d 1344 (Fed. Cir. 2015) 7, 29

Octane Fitness, LLC v. Icon Health & Fitness, Inc.,
134 S. Ct. 1749 (2014) 24

Owens, In re,
710 F.3d 1362 (Fed. Cir. 2013) . . . 18

People v. Downer,
557 P.2d 835 (Colo. 1976) 16

Philip Morris USA v. Williams,
549 U.S. 346 (2007) 28–29

Precision Instrument Manufacturing Co.
v. Automotive Maintenance Machinery Co.,
324 U.S. 806 (1945) 20

Reno v. Flores,
507 U.S. 292 (1993) 26

Robinson v. Shell Oil Co.,
519 U.S. 337 (1997) 6

Salmon, In re,
705 F.2d 1579 (Fed. Cir. 1983) 19

Seaboard Air Line Railway v. Seegers,
207 U.S. 73 (1907) 27

Sheldon v. Metro-Goldwyn Pictures Corp.,
309 U.S. 390 (1940) 30

Southwestern Telephone & Telegraph Co. v. Danaher,
238 U.S. 482 (1915) 26–27, 30

State Farm Mutual Automobile Insurance Co. v. Campbell,
538 U.S. 408 (2003) 27, 29

State Street Bank & Trust Co. v. Signature Financial Group, Inc.,
149 F.3d 1368 (Fed. Cir. 1998) 23

St. Louis, Iron Mountain & Southern Railway Co. v. Williams,
251 U.S. 63 (1919) 26–27

TXO Production Corp. v. Alliance Resources Corp.,
509 U.S. 443 (1993) 27

United Savings Ass'n v. Timbers of Inwood Forest Associates,
484 U.S. 365 (1988) 6

United States v. Bajakajian,
524 U.S. 321 (1998) 27

United States v. Heirs of Boisdore,
49 U.S. (8 How.) 113 (1850) 6

VirnetX, Inc. v. Cisco Systems, Inc.,
767 F.3d 1308 (Fed. Cir. 2014) 10

Waters-Pierce Oil Co. v. Texas,
212 U.S. 86 (1909) 26–27, 30

Welch v. Board of Professional Responsibility,
193 S.W.3d 457 (2006) 16

Westinghouse Co. v. Wagner Manufacturing Co.,
225 U.S. 604 (1912) 10

Yates v. United States,
135 S. Ct. 1074 (2015) 6

CONSTITUTIONAL PROVISIONS

U.S. Const. amend. 5 . . . . . 4, 25–26, 28

U.S. Const. amend. 14 . . . . . 4, 26–28

U.S. Const. art. I, § 8, cl. 8 . . . . . 7, 9, 25

STATUTES

35 U.S.C. § 120 19

——— § 285 24

——— § 287 20

——— § 289 . . . . . 3–12, 14–16, 20, 28–32

——— § 292 . . . . . 3, 22–23

Act of July 19, 1952, ch. 950, 66 Stat. 792 11

America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011) 23

Fed. R. Evid. 404(b)(2) 16

OTHER SOURCES

157 Cong. Rec. S5321 (daily ed. Sept. 6, 2011) (statement of Sen. Kyl) 22

John R. Allison et al., *Patent Quality and Settlement Among Repeat Patent Litigants*, 99 Geo. L.J. 677 (2011) . . 24

Dieter Balkenborg et al., *A Simple Economic Teaching Experiment on the Hold-Up Problem*, 43 J. Econ. Educ. 377 (2012) 12

James Bessen, *The Evidence Is In: Patent Trolls Do Hurt Innovation*, Harv. Bus. Rev. (July 25, 2014), https://hbr.org/2014/07/the-evidence-is-in-patent-trolls-do-hurt-innovation 11

Roger D. Blair & Thomas F. Cotter, *Rethinking Patent Damages*, 10 Tex. Intell. Prop. L.J. 1 (2001) 10

Sarah Burstein, *Costly Designs*, 77 Ohio St. L.J. 107 (2016) 20

Sarah Burstein, *Moving Beyond the Standard Criticisms of Design Patents*, 17 Stan. Tech. L. Rev. 305 (2013) 18

Colleen Chien, *Startups and Patent Trolls*, 17 Stan. Tech. L. Rev. 461 (2014) 11

Colleen V. Chien & Mark A. Lemley, *Patent Holdup, the ITC, and the Public Interest*, 98 Cornell L. Rev. 1 (2012) . 13

Thomas F. Cotter, *Patent Holdup, Patent Remedies, and Antitrust Responses*, 34 J. Corp. L. 1151 (2009) . . 13–14

Decorative Television Frame, U.S. Patent No. D755,744 (issued May 10, 2016) 17

Joseph Farrell et al., *Standard Setting, Patents, and Hold-Up*, 74 Antitrust L.J. 603 (2007) 12

Fed. Trade Comm'n, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (2003), *available at* http://www.ftc.gov/sites/default/files/documents/reports/promote-innovation-proper-balance-competition-and-patent-law-and-policy/innovationrpt.pdf 23

Gift Bag, U.S. Patent No. D739,765 (issued Sept. 29, 2015) 17

Justin E. Gray, *Decrease in New False Marking Cases Filed Post In re BP Lubricants*, Gray on Claims (Mar. 31, 2011), http://www.grayonclaims.com/home/2011/3/31/decrease-in-new-false-marking-cases-filed-post-in-re-bp-lubr.html 23

Justin E. Gray, *False Marking—Settlement Update*, Gray on Claims (Aug. 9, 2011), http://www.grayonclaims.com/home/2011/8/9/false-marking-settlement-update.html 22

Benjamin Klein et al., *Vertical Integration, Appropriable Rents, and the Competitive Contracting Process*, 21 J.L. & Econ. 297 (1978) 12

William F. Lee & A. Douglas Melamed, *Breaking the Vicious Cycle of Patent Damages*, 101 Cornell L. Rev. 385 (2016) 8, 21

Mark A. Lemley, *A Rational System of Design Patent Remedies*, 17 Stan. Tech. L. Rev. 219 (2013) 8

Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 Tex. L. Rev. 1991 (2007) . 15

Joseph S. Miller, *Standard Setting, Patents, and Access Lock-In: RAND Licensing and the Theory of the Firm*, 40 Ind. L. Rev. 351 (2007) 13

Mirror, U.S. Patent No. D754,979 (issued May 3, 2016) . 17

Michael R. O'Neill, *False Marking Claims: The New Threat to Business*, Intell. Prop. & Tech. L.J., Aug. 2010, at 22, *available at* http://files.mwe.com/info/pubs/False_Patent_Marking_Claims.pdf 22

Restatement (Second) of Torts (1977) . . . 29

Restatement (Third) of Restitution and Unjust Enrichment (2011) 30

Perry J. Saidman, *The Crisis in the Law of Designs*, 89 J. Pat. & Trademark Off. Soc'y 301 (2007) 20

Pamela Samuelson & Tara Wheatland, *Statutory Damages in Copyright Law: A Remedy in Need of Reform*, 51 Wm. & Mary L. Rev. 439 (2009) 30

Sheila B. Scheuerman, *Due Process Forgotten: The Problem of Statutory Damages and Class Actions*, 74 Mo. L. Rev. 103 (2009) 27

David L. Schwartz, *The Rise of Contingent Fee Representation in Patent Litigation*, 64 Ala. L. Rev. 335 (2012) . . . 24

Nicholas W. Stephens, *From* Forest Group *to the America Invents Act: False Marking Comes Full Circle*, 97 Iowa L. Rev. 1003 (2012) 22

U.S. Dep't of Justice & Fed. Trade Comm'n, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* (2007), *available at* http://www.usdoj.gov/atr/public/hearings/ip/222655.pdf . . 13

U.S. Dep't of Justice & U.S. Patent & Trademark Office, *Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments* (Jan. 8, 2013), http://www.justice.gov/atr/public/guidelines/290994.pdf 13

U.S. Patent No. D558,753 (issued Jan. 1, 2008) 19

U.S. Patent No. D741,316 (issued Oct. 20, 2015) . . 19

U.S. Patent & Trademark Office, *Manual of Patent Examining Procedure* (9th ed. Nov. 2015) 18

U.S. Patent & Trademark Office, *Performance and Accountability Report, Fiscal Year 2015* (2015), *available at* http://www.uspto.gov/sites/default/files/documents/USPTOFY15PAR.pdf 18

Donald R. Ware, *Research Tool Patents: Judicial Remedies*, 30 AIPLA Q.J. 267 (2002) 15

Brian T. Yeh, Cong. Research Serv., *False Patent Marking: Litigation and Legislation* (2010), *available at* https://www.fas.org/sgp/crs/misc/R41418.pdf 22–23

INTEREST OF *AMICI CURIAE*

Public Knowledge[1] is a non-profit organization that is dedicated to preserving the openness of the Internet and the public's access to knowledge, promoting creativity through balanced intellectual property rights, and upholding and protecting the rights of consumers to use innovative technology lawfully. Public Knowledge advocates on behalf of the public interest for a balanced patent system, particularly with respect to new and emerging technologies.

The Electronic Frontier Foundation ("EFF") is a non-profit civil liberties organization that has worked for over 25 years to protect consumer interests, innovation, and free expression in the digital world. EFF and its more than 23,500 dues-paying members have a strong interest in helping the courts ensure that intellectual property law serves the public interest.

The R Street Institute is a non-profit, non-partisan public-policy research organization. R Street's mission is to engage in policy research and educational outreach that promotes free markets, as well as limited yet effective government, including properly calibrated legal and regulatory frameworks that support Internet economic growth and individual liberty. R Street's particular focus on Internet law and policy is one of offering research and analysis that show the advantages of a more market-oriented society and of more effective, more efficient laws

[1] Pursuant to Supreme Court Rule 37.3(a), all parties received appropriate notice of and consented to the filing of this brief. Pursuant to Rule 37.6, no counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of the brief. No person or entity, other than *amici*, their members, or their counsel, made a monetary contribution to the preparation or submission of this brief.

and regulations that protect freedom of expression and privacy.

The American Antitrust Institute (AAI) is an independent, nonprofit organization devoted to promoting competition that protects consumers, businesses, and society. It serves the public through education, research, and advocacy on the benefits of competition and the use of antitrust enforcement as a vital component of national and international competition policy. The AAI has long recognized the important role that a balanced patent system can play in promoting competition, innovation, and consumer welfare.

IP Justice, founded in 2002, is an international civil liberties organization that promotes Internet freedom, innovation policy, and balanced intellectual property rights. Although based in San Francisco, IP Justice participates in a number of international law and Internet policy venues which impact digital rights including the Internet Corporation for Assigned Names and Numbers (ICANN), the UN World Intellectual Property Organization (WIPO), the UN Internet Governance Forum (IGF), and other international treaty and trade agreements addressing Internet policy and intellectual property rights. IP Justice has held an accredited consultative status with ECOSOC, the Economic and Social Council of the United Nations, since 2003.

SUMMARY OF ARGUMENT

Five years ago, the United States Court of Appeals for the Federal Circuit construed a statute in a way that led to one of the most disastrous episodes in modern patent law. The court thought its construction unremarkable, based on the "plain language" of the statute. But that court's interpretation, which authorized vast monetary awards in certain patent lawsuits, had far-reaching effects. The decision would trigger *six hundred and seventy-five* new lawsuits within a year, create a cottage industry of litigation firms, force companies to scramble to avoid "staggering fines," and draw criticism as "a shift in wealth to lawyers."[2]

The case thus described was *Forest Group, Inc. v. Bon Tool Co.* and related to patent marking, but it could be the present design patent damages case in five years' time if history is any guide. For the Federal Circuit's decision here, interpreting 35 U.S.C. § 289 to require an award of total profits on any consumer product that infringes a design patent, sets up the same precarious situation as the widely denounced interpretation of 35 U.S.C. § 292 in *Forest Group* that authorized potentially enormous false marking awards.

This Court should reverse the Federal Circuit and construe § 289 to balance the equities among patent owners, industry, and the public. The statutory text is more open to interpretation than the Court of Appeals assumed it to be. Given that interpretive flexibility, there are at least three reasons why this Court should reject the Federal Circuit's construction and adopt a different one.

---

[2] *See* Section III.B(1) *infra* p. 22.

First, the Federal Circuit's construction will undermine the patent system. With many design patents being directed to only minor parts of products, awarding the total profits on such products will greatly overvalue the patents and undervalue the numerous other features in those products. This possibility will likely raise prices, discourage new goods and services from coming to market, and thus impede consumers' access to new technologies contrary to the constitutional mandate that patents promote progress. It also opens the door to the economic inefficiencies of patent holdup and royalty stacking, which work to disincentivize future invention and productivity.

Second, there are strong reasons to believe that the Federal Circuit's interpretation will create a costly and abusive new industry of design patent assertion that will enrich a few clever litigators at the expense of the public. With the Federal Circuit's decision offering the promise of enormous damage awards, and with extant substantive law already making it easy to obtain broad-scoped design patents, design patent law offers the motive, means, and opportunity for widespread and abusive litigation. Indeed, history shows that, at least three times, the Federal Circuit has devised rigid rules that have fostered patent-related litigation industries, including the patent marking situation described above.

Third, affirming the Federal Circuit's reading of § 289 may invite a serious question of the constitutionality of that damages statute. This Court has held for a century that excessively high damages awards, disproportionate to the magnitude of the actual offense, can run afoul of the Due Process Clauses of the Fifth and Fourteenth Amendments, in the contexts of both punitive damages

and statutory awards. An award of total profits on a product for infringement of a design patent of minor or inconsequential value to that product is potentially impermissible under this jurisprudence, and may render § 289's application unconstitutional in many cases should the Federal Circuit's interpretation stand. This Court has often sought to construe statutes to avoid serious doubts as to their constitutionality where such statutes permit alternative interpretations; it should again do so here.

Too often has the patent system been beleaguered by unbalanced rules that favor a small class of rightsholders at the expense of the public good and the constitutional mandate for that system. Too rarely does this Court receive a timely case allowing it to nip that imbalance in the bud, before the harm is done, simply by correcting a wayward construction of a patent statute. This is that timely case.

To prevent such harm from occurring, to protect the public interest, and to ensure that § 289 comports with the objects of the patent system, this Court should reverse.

ARGUMENT

I. THE FEDERAL CIRCUIT'S CONSTRUCTION IS NOT MANDATED BY THE TEXT OF SECTION 289

Contrary to the decision of the Court of Appeals, the design patent damages statute is not so wholly inflexible as to require an award of total profits on entire products in all cases. The statutory language is sufficiently ambiguous to permit a proper interpretation that more appropriately balances the interests of the patent system.

Statutory construction requires a complete view of the text of a statute in the context of the broader law and policy. "In expounding a statute," explained Justice Taney, "we must not be guided by a single sentence or member of a sentence, but look to the provisions of the whole law, and to its object and policy." *United States v. Heirs of Boisdore*, 49 U.S. (8 How.) 113, 122 (1850); *see also United Sav. Ass'n v. Timbers of Inwood Forest Assocs.*, 484 U.S. 365, 371 (1988) ("Statutory construction, however, is a holistic endeavor."); *Robinson v. Shell Oil Co.*, 519 U.S. 337, 341 (1997); *Yates v. United States*, 135 S. Ct. 1074, 1082 (2015) (Ginsburg, J., op.) ("dictionary definitions . . . are not dispositive of the meaning" of a statute); *id.* at 1092 (Kagan, J., dissenting) ("I agree with the plurality (really, who does not?) that context matters in interpreting statutes.").

The Federal Circuit claimed to be "bound by what the statute says" in holding that 35 U.S.C. § 289 requires[3] awarding patentees the "total profit from the article of

[3]Respondent faults *amici* for a "mistaken assumption that the Federal Circuit's ruling *requires*" a total profit award. Br. Opp'n 34–35 n.15. But the Federal Circuit has at least twice said that § 289 "*requires* the disgorgement of the infringers' profits." *Nike Inc. v. Wal-Mart Stores, Inc.*, 138 F.3d 1437, 1448 (Fed. Cir. 1998) (empha-

manufacture bearing the patented design," by which it means the total profit on the whole product as sold to consumers. *Apple Inc. v. Samsung Elecs. Co.*, 786 F.3d 983, 1001–02 & n.1 (Fed. Cir. 2015). But the statutory language is not so plain and mandatory in that respect.

The statute states, in relevant part, that an infringer of a design patent "shall be liable to the owner *to the extent of his total profit*, but not less than $250." 35 U.S.C. § 289 (emphasis added). Read literally, then, the statute does not limit the award to the "total profit *from the article of manufacture*," as the Federal Circuit held; total profits would seem to apply to all products sold or services rendered, infringing or not. According to the text of § 289, Samsung would theoretically be liable to Apple for its profits from selling washing machines.

Thus, even the Federal Circuit's interpretation acknowledges and depends on ambiguity in the statutory text.

But there is no good reason that the Federal Circuit's limitation on the scope of § 289, cabining total profits at the level of consumer articles, is the right line to draw. Petitioners and several *amici* have proposed alternate interpretations of § 289. *See, e.g.*, Br. 37 Intellectual Property Law Professors 17, Jan. 15, 2016; Br. Computer and Communications Industry Association 9, Jan. 15, 2016.

Accordingly, the statutory language is sufficiently ambiguous to allow interpreting § 289 in a manner consonant with the overall "object and policy" of patent law, namely "to promote the progress of science and useful arts." U.S. Const. art. I, § 8, cl. 8.

---

sis added); *Nordock, Inc. v. Sys. Inc.*, 803 F.3d 1344, 1354 (Fed. Cir. 2015).

II. SECTION 289 SHOULD BE INTERPRETED TO PROMOTE FAIRNESS AND ECONOMIC EFFICIENCY RATHER THAN TO OVERCOMPENSATE ONE PARTY

This Court should interpret § 289 in a way that advances the public purpose of the patent system, namely to offer a fair reward to inventors without unduly burdening the public interest in access to technology. The Federal Circuit's approach fails to strike that balance.

Many design patents are directed not to entire products, but rather only to small components or parts. By contrast, the products that potentially infringe design patents are often complex ones incorporating numerous technologies and designs. "Modern devices may potentially infringe many thousands of patents, held by numerous different owners." William F. Lee & A. Douglas Melamed, *Breaking the Vicious Cycle of Patent Damages*, 101 Cornell L. Rev. 385, 407 (2016). Thus, the profits on a complex product may derive from myriad technological and design innovations, any combination of which might drive consumers' purchasing decisions.

As a result, awarding total profits on an entire product for a patent on only a small component gives design patentees a windfall of profits attributable to a large number of far more significant elements, including those covered by other utility and design patents. *See* Mark A. Lemley, *A Rational System of Design Patent Remedies*, 17 Stan. Tech. L. Rev. 219, 232–33 (2013).

Alternate interpretations of § 289 will better allocate value between a patent owner and a product manufacturer. That correct allocation will have at least two benefits. First, it would encourage future innovation by better accounting for future inventors and creators. Second, it

would avoid the known economic inefficiency problems of "patent holdup" and "royalty stacking." Accordingly, this Court should reject the Federal Circuit's interpretation of § 289 and adopt a different reading that accommodates these important considerations.

A. Alternate Interpretations Would Better Promote Innovation

An alternate reading of § 289 would better serve the basic purpose of the patent system, namely enhancing the public interest in greater access to technology. This purpose, enshrined in the Constitution and in this Court's decisions, is best served through appropriate limits on the strength of patents, including limiting infringement damages to a proper measure of the patentee's inventive contribution. But the Federal Circuit's total-profits interpretation grants excessive damages that would break this balance, and so it should be rejected.

1. The primary purpose of the patent system is to encourage innovation and ultimately to benefit the public. The Constitution authorizes Congress to create a patent system, but only one that is directed "to promote the progress of science and useful arts." U.S. Const. art. I, § 8, cl. 8; *see Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989) ("the Clause contains both a grant of power and certain limitations upon the exercise of that power."). The "primary object" of patents is "the benefit to the public or community at large." *Kendall v. Winsor*, 62 U.S. (21 How.) 322, 327–28 (1859). Thus, "the patent power may not overreach the restraints imposed by the stated constitutional purpose." *Graham v. John Deere Co.*, 383 U.S. 1, 6 (1966).

Limiting damages to the inventive contribution of the patentee is critical to maintaining that public purpose of patents. *Garretson v. Clark* affirmed that patentees should "in every case give evidence tending to separate or apportion the defendant's profits and the patentee's damages between the patented feature and the unpatented feature." 111 U.S. 120, 121 (1884). In particular, damages based on the whole machine are appropriate only given evidence that the value of the whole machine could be "properly and legally attributable to the patented feature." *Id.*; *see also Westinghouse Co. v. Wagner Mfg. Co.*, 225 U.S. 604, 614–15 (1912) ("[I]f plaintiff's patent only created a part of the profits, he is only entitled to recover that part of the net gains.").

Following *Garretson*, the recent case *VirnetX, Inc. v. Cisco Systems, Inc.* held that a patentee could be awarded "only those damages attributable to the infringing features." 767 F.3d 1308, 1326 (Fed. Cir. 2014). Such a rule was necessary, said the Federal Circuit, to ensure that the award "does not overreach and encompass components not covered by the patent." *Id.* (citing *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 1255, 67–68, 70 (Fed. Cir. 2012)).

2. By requiring an award of total profits on the entire consumer product, the Federal Circuit's reading of § 289 breaks this balance. In most circumstances not all of the infringer's profits are attributable to the infringing patent—it would be highly unbalanced, for example, to award an owner of a patent on a tire design the total profits on a vehicle. "[A]warding the plaintiff any more than the lost profit attributable to the component . . . would in effect expand the scope of the plaintiff's patent to encompass the entire final product." Roger D. Blair & Thomas

F. Cotter, *Rethinking Patent Damages*, 10 Tex. Intell. Prop. L.J. 1, 14 (2001).

The Federal Circuit's rule ignores the interests of others whose innovations contributed to the profitability of the same product. By allocating 100% of the profits on a product to a design patent asserter and 0% to all other contributors to that product, that rule strips away any incentives for those other contributors to innovate, directly contravening the constitutional purpose of the patent system. *See* Section II.B(2) *infra* p. 14 (discussing "royalty stacking," where the sum of patent royalties exceeds 100% of the value of the product).

The degree of overcompensation is most stark in the increasingly likely scenario of "innocent" infringement,[4] that is, where the manufacturer arrived at a similar design through its own inventive efforts. Damages under § 289 require no showing of the infringer's knowledge of infringement, of the patent itself, or of other products incorporating the design. *See* Br. Pet'rs 16 (citing Act of July 19, 1952, ch. 950, § 289, 66 Stat. 792, 813–14). A company could develop a new product coincidentally using a minor patented design and then be blindsided with loss of all profits on that product. This possibility would dissuade new firms from developing innovative products and bringing them to market. *Cf.* Colleen Chien, *Startups and Patent Trolls*, 17 Stan. Tech. L. Rev. 461, 477 (2014) (documenting small companies' avoidance of technology and markets out of fear of patent assertion); James Bessen, *The Evidence Is In: Patent Trolls Do Hurt Innovation*, Harv. Bus. Rev. (July 25, 2014), URL *supra* p. vii.

[4]The numerous design patents being obtained on the most basic shapes and designs, *see infra* p. 18, make innocent infringement more and more likely.

By requiring awards of total profits on whole consumer products, the Federal Circuit's interpretation of § 289 will increase risk for those who want to develop new products or services, and thereby deter innovation. Accordingly, this Court should adopt an alternative interpretation of § 289 crafted to promote innovation rather than overcompensation, to favor a balance between the public interest and patentees, and to advance the needs of business, the economy, and the public.

B. Economic Concerns with Holdup and Royalty Stacking Militate in Favor of an Alternate Interpretation

An interpretation of § 289 different from the Federal Circuit's rule would avoid two problematic economic inefficiencies: patent holdup and royalty stacking.

1. "Holdup" refers to the situation where one firm sinks startup investments into a project, only to be forced later into negotiations with an outside party having the power to block that project. The firm is forced to choose between abandoning the project and the sunk costs or paying the outside party theoretically up to the entire value of the project. *See* Dieter Balkenborg et al., *A Simple Economic Teaching Experiment on the Hold-Up Problem*, 43 J. Econ. Educ. 377 (2012) (describing holdup and surveying literature); Benjamin Klein et al., *Vertical Integration, Appropriable Rents, and the Competitive Contracting Process*, 21 J.L. & Econ. 297, 298 (1978). "It is as if the sawmill owner set its prices [for purchasing logs] only after a logger transported its logs to the sawmill, unloaded them, and sent its trucks away." Joseph Farrell et al., *Standard Setting, Patents, and Hold-Up*, 74 Antitrust L.J. 603, 612 (2007).

Holdup creates perverse *ex ante* incentives and harms static and dynamic efficiency. Any excessive payments that the firm makes due to threat of holdup translate to downstream costs to consumers. And the victimized firm, anticipating the loss of the value of its startup investments as a result of holdup, may decline *ex ante* to invest in future projects. *See* Thomas F. Cotter, *Patent Holdup, Patent Remedies, and Antitrust Responses*, 34 J. Corp. L. 1151, 1169 (2009); Joseph S. Miller, *Standard Setting, Patents, and Access Lock-In: RAND Licensing and the Theory of the Firm*, 40 Ind. L. Rev. 351, 366–67 n.65 (2007). Where holdup is enabled, fewer products and services make it to market, harming consumers' access to and choice of technology. Colleen V. Chien & Mark A. Lemley, *Patent Holdup, the ITC, and the Public Interest*, 98 Cornell L. Rev. 1, 6 (2012).

In the patent context, the harms of holdup have been recognized by no small number of authorities. Justice Kennedy warned in *eBay Inc. v. MercExchange, LLC* that where "the patented invention is but a small component of the product," an injunction could be "employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent"—that is, as a tool for patent holdup. 547 U.S. 388, 396 (2006) (concurring op.).[5] The Department of Justice, Federal Trade Commission, and Patent and Trademark Office have all recognized the risks of patent holdup.[6]

---

[5] *See also Microsoft Corp. v. Motorola, Inc.*, 795 F.3d 1024, 1031 (9th Cir. 2015); *Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297, 310 (3d Cir. 2007); *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1209 (Fed. Cir. 2014).

[6] U.S. Dep't of Justice & Fed. Trade Comm'n, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* 35–37 (2007), *available at* URL *supra* p. ix; U.S. Dep't

Here, the Federal Circuit's interpretation of § 289 would likely lead to the same results as patent holdup. While holdup normally involves an injunction threat, the effect of disgorgement of all profits on a product is the same: the nominal right to continue manufacturing is a nullity when every cent of the value is taken away. *Cf.* Cotter, *supra*, at 1171 (excessive damages "could cause much the same harm to static and dynamic efficiency" as an injunction). The mere threat of design patent litigation may be used as a club to extract excessive payments that will be passed on to consumers. *See* Section III *infra* p. 16. And if companies like Samsung contemplated that their investments in phone designs would yield no profits in view of a single infringement case, then such companies would be wary of investing in new designs, the exact loss that holdup theory predicts.

2. "Royalty stacking" is another problem that will likely also result from the Federal Circuit's reading of § 289. Royalty stacking occurs when multiple patentees each are able to obtain an infringement royalty that is greater than the proportional contribution of each patent to the infringing product. The total "stack" of royalties, as a result, can exceed 100% of the product's total value, meaning that the infringing manufacturer would have to pay more in royalties than the manufacturer actually earns in sales. *See Microsoft Corp. v. Motorola, Inc.*, 795 F.3d 1024, 1031 (9th Cir. 2015); Cotter, *supra*, at 1169.

The harms of royalty stacking are similar to those of patent holdup: manufacturers who wish to develop new products will likely be discouraged *ex ante* by the

---

of Justice & U.S. Patent & Trademark Office, *Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments* 4 (Jan. 8, 2013), URL *supra* p. ix.

prospect of potentially having to go into debt to pay royalties. *See* Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 Tex. L. Rev. 1991, 2012 (2007). As the Federal Circuit recognized in the pharmaceutical development context, "[t]he cumulative effect of such stacking royalties can be substantial." *Integra Lifesciences I, Ltd. v. Merck KGaA*, 331 F.3d 860, 871 (2003) (citing Donald R. Ware, *Research Tool Patents: Judicial Remedies*, 30 AIPLA Q.J. 267, 295 (2002)), *vacated on other grounds*, 545 U.S. 193 (2005).

By authorizing total profits recovery to every design patent owner, the Federal Circuit's rule creates a clear path to royalty stacking. Although § 289 does not allow "an owner of an infringed patent" to "twice recover the profit made from the infringement," the statute does not deal with a situation where patents of two different patentees are involved. If two design patent owners succeed in showing that a product infringes their respective patents, then the product manufacturer could theoretically owe twice its entire profits. Or if a product infringes a design patent and a utility patent, the manufacturer could owe total profits plus a reasonable royalty.[7]

Accordingly, the total profit award authorized by the Federal Circuit potentially leads to patent holdup and royalty stacking. These consequences suggest the error of the Federal Circuit's interpretation of § 289 and the superiority of an alternate one.

---

[7]A court might try to avoid this situation by deeming that, after the first award of total profits, there are no more profits to be awarded such that future patent asserters would receive nothing. Such a result would introduce an extremely strange path-dependence into patent infringement, wherein the patent damages award turns on the order in which lawsuits are filed, and it would also induce a race to the courthouse over design patents.

III. THE FEDERAL CIRCUIT'S INTERPRETATION INVITES AN INDUSTRY OF COUNTERPRODUCTIVE PATENT LITIGATION

The rigid "total profits" rule will almost certainly spawn a cottage industry of opportunistic litigation, compounding the harms described above. The present ease of obtaining broad design patents on simple concepts means that the stage is already set for opportunities for abusive design patent litigation. And the situation with design patents is highly analogous to other situations where newly-minted Federal Circuit rules triggered waves of litigation. In other contexts this Court has sought to avoid incubating patent litigation industries; it should seek to avoid the same possibility here.

A. DESIGN PATENTS ARE RIPE FOR ABUSE, ESPECIALLY WITH THE ENTICEMENT OF TOTAL PROFITS

Means, motive, and opportunity are the elements conducive to bad acts.[8] Current law makes it almost trivially easy to obtain design patents—the means—that have broad scope and that are likely to sweep in large ranges of unintentional infringers—the opportunity. By opening the door to potentially enormous total-profits awards, the Federal Circuit's interpretation of § 289 adds the final leg of the triad—the motive—for the rise of a design patent litigation industry.

---

[8] *See, e.g., People v. Downer*, 557 P.2d 835, 839 (Colo. 1976); *Welch v. Bd. of Prof'l Responsibility*, 193 S.W.3d 457, 466 (2006). These three elements alone will not support a criminal conviction, *see Commonwealth v. O'Laughlin*, 830 N.E.2d 222, 231 (Mass. 2005), but the presence of all three is certainly probative of likelihood that the bad acts will occur. *Cf.* Fed. R. Evid. 404(b)(2).

FIG. 1

Gift Bag, U.S. Patent No. D739,765 fig.1 (issued Sept. 29, 2015).

Fig. 2

Mirror, U.S. Patent No. D754,979 fig.2 (issued May 3, 2016).

FIG. 1

Decorative Television Frame, U.S. Patent No. D755,744 fig.1 (issued May 10, 2016).

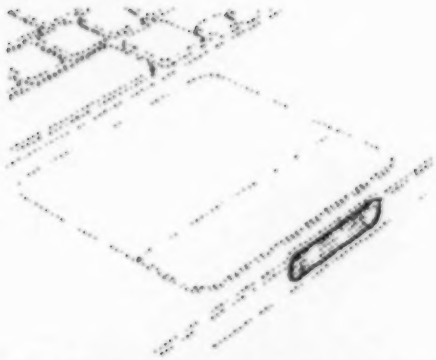
Figure 1: Example design patents recently issued.

The Means. Design patents are routinely granted on the most trivial aspects of consumer products. In 2014, the Patent and Trademark Office granted 24,008 design patents while only 2,828 applications went abandoned, meaning that a design patent application that year had an 89.5% chance of being granted. U.S. Patent & Trademark Office, *Performance and Accountability Report, Fiscal Year 2015*, at 184 tbl.1 (2015), *available at* URL *supra* p. ix. Compared to utility and other patents, which had a 51.5% probability of grant that year, a design application is practically a sure bet for obtaining a patent.

Within that 89.5% cohort of granted design patents, it is easy to find ones of dubious validity. As shown in Figure 1 above, recently issued patents include designs as pedestrian as a Christmas stocking, a wall mirror, and a television screen. *See also* Sarah Burstein, *Moving Beyond the Standard Criticisms of Design Patents*, 17 Stan. Tech. L. Rev. 305, 324–28 (2013) (describing Federal Circuit law that "may explain, at least in part, why the PTO has been issuing design patents for so many apparently obvious designs lately").

The Opportunity. It is not just that design patents routinely issue on commonplace designs: the law permits issuance of very broad patents that can easily sweep in unsuspecting companies as infringers. Current design patent laws and regulations "allow the patentee to adjust his patent coverage" by replacing solid lines in the figures with dashed ones, as dashed lines are not considered part of the design claimed by the patent. *In re Owens*, 710 F.3d 1362, 1367 (Fed. Cir. 2013); *see also* U.S. Patent & Trademark Office, *Manual of Patent Examining Procedure* § 1503.02(III) (9th ed. Nov. 2015). Furthermore, the applicant can use continuation practice to obtain multi-

U.S. Patent No. D558,753 fig.1 (issued Jan. 1, 2008).



U.S. Patent No. D741,316 fig.1 (issued Oct. 20, 2015) (enlarged fragment).

Figure 2: Example design patent continuations.

ple patents from a single application and thus revise the scope of patented subject matter over time. *See* 35 U.S.C. § 120; *In re Salmon*, 705 F.2d 1579, 1579 (Fed. Cir. 1983).

These two legal tools allow a design patent owner to render a large swath of competitors or other manufacturing companies liable for infringement. For example, Figure 2 shows figures from two Apple design patents, the right one being a continuation of the left. While the older patent is extremely "narrow," claiming nearly the whole laptop design, the newer patent replaces nearly the entire figure with unclaimed dashed lines, claiming only the small oblong shape of the front push latch. Thus, a different-looking laptop using a similar-shaped latch would infringe the newer patent, but not the older.

This practice makes it difficult to avoid infringement through design-around. A hypothetical Apple competitor could have tailored its activity to avoid infringing the earlier patent, and yet find itself infringing the later issued

patent. *See* Sarah Burstein, *Costly Designs*, 77 Ohio St. L.J. 107, 116–17 (2016).[9]

And those who unintentionally use a patented design are in an even worse situation, having no good way to determine what design patents may be implicated by their products. The mutability of design patents through broken lines and continuations, combined with the general difficulty of finding similar images, makes searching the patent catalog an exercise in futility. Nor would review of competing products on the shelves be more effective: patent marking on products is incomplete at best.[10] Product makers and sellers have limited ability to avoid potential infringement claims, meaning that design patent owners have a wide opportunity to bring lawsuits.

The Motive. With the means and opportunity for widespread design patent litigation established, only the motive for bringing such suits remains. That motive is created by the Federal Circuit's reading of § 289 to award total profits on consumer products, giving design patent holders the possibility of large windfalls in damages.

---

[9]One practitioner apparently applauds this strategy, calling it "well-accepted patent gamesmanship" and "one of the most powerful weapons in a design patentee's arsenal." *See* Perry J. Saidman, *The Crisis in the Law of Designs*, 89 J. Pat. & Trademark Off. Soc'y 301, 319–24 (2007). Query whether giving a "powerful weapon" to patentees is the right result. *Cf. Medtronic, Inc. v. Mirowski Family Ventures, LLC*, 134 S. Ct. 843, 851 (2014) ("But the 'public' also has a 'paramount interest in seeing that patent monopolies . are kept within their legitimate scope.'") (quoting *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806, 816 (1945)).

[10]While marking under 35 U.S.C. § 287 is a prerequisite to design patent damages, *see Nike Inc. v. Wal-Mart Stores, Inc.*, 138 F.3d 1437, 1446 (Fed. Cir. 1998), marking will not reveal patents issued after the products were marked, and it will not reveal patents held by non-manufacturing owners.

Design patentees may augment these already large potential awards in at least two ways. First, they may opt not to license to or sue component manufacturers, waiting instead to seek a greater damages award based on more complete, and more profitable, downstream products. *See* Lee & Melamed, *supra*, at 427 n.201. Second, they may take advantage of the Federal Circuit's questionable recent decision in *Lexmark International, Inc. v. Impression Products, Inc.*, 816 F.3d 721 (Fed. Cir. 2016) (en banc), *petition for cert. filed*, No. 15-1189 (Mar. 21, 2016), and use the device of conditional sales to control the secondary resale market as well as to extract the profits of competitors.[11]

Accordingly, the means, motive, and opportunity for a new wave of design patent litigation are all present in view of the Federal Circuit's decision here. By reversing that decision, this Court would forestall such an undesirable result.

B. Analogous Federal Circuit Rules Have Created Cottage Industries of Patent Litigation

The likelihood that the Federal Circuit's decision will give rise to an industry of design patent litigation is illuminated by the fact that other recent Federal Circuit decisions have given rise to industries of patent litigation, ones that have harmed the patent system and the public.

---

[11] *Lexmark* held that, where a patent holder manufactures products and places a notice of conditions on the packaging, downstream resellers or users who violate the conditions would be liable for patent infringement, despite the patent exhaustion doctrine. *See id.* at 773–74. Several *amici* filed a brief with this Court arguing that *Lexmark* is incorrect and contrary to Supreme Court precedent.

1. Most analogous to the present case, the Federal Circuit in *Forest Group, Inc. v. Bon Tool Co.* construed 35 U.S.C. § 292 to impose up to a $500 fine for each article on which the manufacturer erroneously applied a patent marking. *See* 590 F.3d 1295, 1384 (Fed. Cir. 2009). The interpretation of the patent marking statute "exponentially raised the potential recoveries in false marking actions," causing a "meteoric rise in false patent marking suits." Brian T. Yeh, Cong. Research Serv., *False Patent Marking: Litigation and Legislation* 2 (2010), *available at* URL *supra* p. x.

Within a year of that decision, the cottage industry of false marking litigation had been established: 675 new lawsuits were filed, many by newly established firms filing dozens of cases. *See* Nicholas W. Stephens, *From* Forest Group *to the America Invents Act: False Marking Comes Full Circle*, 97 Iowa L. Rev. 1003, 1019 n.107 (2012); Justin E. Gray, *False Marking—Settlement Update*, Gray on Claims (Aug. 9, 2011), URL *supra* p. viii. One practitioner advised companies to quickly review their product lines to avoid "staggering fines" even for "inadvertent mismarking." Michael R. O'Neill, *False Marking Claims: The New Threat to Business*, Intell. Prop. & Tech. L.J., Aug. 2010, at 22, 28–29, *available at* URL *supra* p. viii. The result of *Forest Group* was widely criticized; one senator called it "a shift in wealth to lawyers that comes at the expense of manufacturing jobs." 157 Cong. Rec. S5321 (daily ed. Sept. 6, 2011) (statement of Sen. Kyl).

The decision being reviewed here is similar to the court's *Forest Group* decision five years ago. In both cases the Federal Circuit interpreted a statute, claiming to be merely applying the plain language of the statute,

that opened the door to high-magnitude judicial awards. In both cases, the right to sue was easy to obtain and the pool of potential defendants was large. So it should be unsurprising if the result of the Federal Circuit's decision here, if left unchanged, would be similar to the result of *Forest Group*: an overnight industry of litigants "scouring store shelves . . . with hopes for a massive payday." Yeh, *supra*, at 2.[12]

2. The Federal Circuit's ruling in *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, authorizing patents on business methods, *see* 149 F.3d 1368, 1373 (Fed. Cir. 1998), also resulted in a flood of applications for patents on business methods and software. *See* Fed. Trade Comm'n, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* ch. 4, at 39 (2003), *available at* URL *supra* p. vii. Patent owners, armed with patents on these basic concepts, were now in a position to sue broad swaths of businesses, and potentially receive massive infringement payouts. This practice went largely unchecked until this Court substantially corrected the standard for patentable subject matter eligibility in *Bilski v. Kappos*, 561 U.S. 593 (2010), and

[12]The courts were instrumental in repairing the damage left by *Forest Group*. Several months after that decision, a different panel of the Federal Circuit clarified the intent requirement of 35 U.S.C. § 292. *See In re BP Lubricants USA Inc.*, 637 F.3d 1307, 1311 (Fed. Cir. 2011). Congress ultimately modified the patent marking statute, *see* America Invents Act, Pub. L. No. 112-29, § 16(b), 125 Stat. 284, 329 (2011), but *BP Lubricants* is generally credited with significantly decreasing the onslaught of false marking cases. *See* Justin E. Gray, *Decrease in New False Marking Cases Filed Post In re BP Lubricants*, Gray on Claims (Mar. 31, 2011), URL *supra* p. viii. Notably, because design patent infringement is a strict liability offense, this avenue is not available in the present case.

Alice Corp. Pty. Ltd. v. CLS Bank International, 134 S. Ct. 2347 (2014).

3. Similarly, the Federal Circuit established a rigid rule restricting the ability for courts to shift attorney fees in patent cases under 35 U.S.C. § 285. *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005), *overruled by Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014). This had allowed patent owners to bring borderline frivolous infringement actions without risk.

The combination of easily-obtained business method patents and the lack of consequence for even highly questionable lawsuits in large part facilitated the industry of "patent assertion entities." Their patent infringement actions are often in fact unsuccessful, with one study finding that high-volume patent asserters, those whose patents were litigated eight or more times in a nine-year period, lost almost 90% of the time when their cases were fully litigated. *See* John R. Allison et al., *Patent Quality and Settlement Among Repeat Patent Litigants*, 99 Geo. L.J. 677, 681 (2011).

But patent assertion entities need not rely on success on the merits; they can leverage the cost of litigation as a weapon to extract settlements before reaching the merits. Wrote one commentator: "It is not uncommon for settlement demands to be in the range of $100,000 or $250,000, even though the cost of litigating the case for an accused infringer would be close to one million dollars per year. Sometimes the demands are as low as $5,000 or $10,000." David L. Schwartz, *The Rise of Contingent Fee Representation in Patent Litigation*, 64 Ala. L. Rev. 335, 370 (2012). The misguided *Brooks Furniture* rule thus helped to establish the dubious "industry . . . in which firms

use patents . . . primarily for obtaining licensing fees." *Commil USA, LLC v. Cisco Sys., Inc.*, 135 S. Ct. 1920, 1930 (2015) (quoting *eBay*, 547 U.S. at 396 (Kennedy, J., concurring)).

Experience with utility patent assertion should inform this Court's expectations about design patent assertion: where a rule of law affords an opportunity for abusive litigation, there are those willing and able to avail themselves of that rule in short order. Indeed, the possibility of disproportionately large total-profit damages makes design patent assertion appear even more attractive than utility patent assertion, where a proportionality requirement has long been in place.

And experience shows that time is of the essence. Ordinarily it might take years or decades before this Court or Congress has an opportunity to deal with harm already done by a misguided rule of patent law. But in this case this Court can avoid the bulk of the harm in the first instance by reversing a misguided rule *ab initio*.

IV. Section 289 Should Be Interpreted in a Way that Avoids Serious Constitutional Doubts

Besides being bad policy, the Federal Circuit's interpretation may raise constitutional doubts, specifically because an absolute "total profits" rule can result in excessively high and disproportionate damages awards that could violate the Fifth Amendment.[13] Correcting that interpretation may thus avoid a potential constitutional quagmire.

---

[13]The Federal Circuit's interpretation also runs afoul of the Patent Clause, as explained in Petitioners' brief. *See* Br. Pet'rs 38–39.

A. Due Process May Disallow Certain Excessively High Damages Awards

That the Due Process Clauses of the Fifth and Fourteenth Amendments prohibit "excessive" and "wholly disproportionate" damages is a longstanding principle of this Court.[14]

A long arc of cases confirms that due process constrains damages awards to bear some relationship to the harm caused. *Waters-Pierce Oil Co. v. Texas* held that civil penalties could be unconstitutional where "the fines imposed are so grossly excessive as to amount to a deprivation of property without due process of law." 212 U.S. 86, 111 (1909). Similarly, *St. Louis, Iron Mountain & Southern Railway Co. v. Williams* suggested that a statutory penalty could "transcend the limitation" of the Fourteenth Amendment "where the penalty prescribed is so severe and oppressive as to be wholly disproportioned to the offense and obviously unreasonable." 251 U.S. 63, 66–67 (1919) (citing *Waters-Pierce Oil*, 212 U.S. at 111).

Though *Waters-Pierce Oil* and *St. Louis* ultimately found no due process violation on their respective facts, this Court did find such a violation in *Southwestern Telephone & Telegraph Co. v. Danaher*. There, a state had levied a relatively large civil penalty against a telephone company that had disconnected one of its users for insufficient payment. *See* 238 U.S. 482, 485–86 (1915). Particularly given its finding of "no intentional wrongdoing," this Court held that the penalty "was so plainly arbitrary and

---

[14] Although patent law, as federal law, is governed by the Due Process Clause of the Fifth Amendment rather than that of the Fourteenth Amendment, the standards appear not to differ. *See, e.g., Reno v. Flores*, 507 U.S. 292, 301 (1993); *Deshaney v. Winnebago County Dep't of Soc. Servs.*, 489 U.S. 189, 196 (1989).

oppressive as to be nothing short of a taking of its property without due process of law." *See id.* at 491. *Danaher* thus stands for the proposition that a "plainly arbitrary and oppressive" recovery rule can violate due process.[15] *See generally* Sheila B. Scheuerman, *Due Process Forgotten: The Problem of Statutory Damages and Class Actions*, 74 Mo. L. Rev. 103 (2009).

More recent cases have held that proportionality between damages and injury is required in the context of punitive damages. In *TXO Production Corp. v. Alliance Resources Corp.*, 509 U.S. 443 (1993), a plurality of this Court relied on *Waters-Pierce Oil*, *St. Louis*, and *Danaher* to determine that "the Due Process Clause of the Fourteenth Amendment imposes substantive limits 'beyond which penalties may not go.'" *TXO*, 509 U.S. at 453–54 (quoting *Seaboard Air Line Ry. v. Seegers*, 207 U.S. 73, 78 (1907)).

That principle was followed in *BMW of North America v. Gore*, which held that the Fourteenth Amendment "prohibits a State from imposing a 'grossly excessive' punishment on a tortfeasor." 517 U.S. 559, 562 (1996) (citations omitted); *see also Cooper Indus., Inc. v. Leatherman Tool Group, Inc.*, 532 U.S. 424, 434 (2001). Thus, "punitive damages may not be 'grossly out of proportion to the severity of the offense.'" 517 U.S. at 576 (quoting *TXO*, 509 U.S. at 453, 462); *see also Cooper Indus.*, 532 U.S. at 435; *United States v. Bajakajian*, 524 U.S. 321, 334 (1998); *State Farm Mut. Auto. Ins. Co. v. Campbell*, 538 U.S. 408, 1152 (2003).

---

[15] It is noted that *Danaher* specifically did *not* declare unconstitutional the overall statute disallowing discriminatory disconnection, but rather only found the statutory penalty to be insufficiently grounded. *See id.* at 490.

Indeed, a rule allowing excessive damages can even fail *procedural* due process. *Philip Morris USA v. Williams* considered a punitive damages award that was apparently premised largely on injury to third parties similarly situated to the plaintiff but not parties to the action. *See* 549 U.S. 346, 350–51 (2007). Noting initially that "the Constitution imposes certain limits, in respect both to procedures for awarding punitive damages and to amounts forbidden as 'grossly excessive,'" *Philip Morris* held that the Fourteenth Amendment "forbids a State to use a punitive damages award to punish a defendant for injury that it inflicts upon nonparties." *Id.* at 353. Thus, where a damages award goes beyond compensation for the harm to the party itself, there is a potential problem of procedural due process.

Accordingly, damages that are excessive and disproportionate in relation to a defendant's wrongdoing or to the amount of harm caused to the plaintiff can violate constitutional due process guarantees enshrined in the Fifth and Fourteenth Amendments.

B. A Total Profits Award, Irrespective of Actual Harm, Potentially Violates These Due Process Principles

In adopting a construction of § 289 that awards the plaintiff all of the defendants' profits on a product when that product contains only a small infringing element, the Federal Circuit has opened the door to damages awards that may be unconstitutionally high.

1. Where the infringing element comprises a minor contribution to an overall product and has a null or negligible effect on the product's profits, such awards may be "grossly out of proportion to the severity of [the de-

fendant's] offense," *Gore*, 517 U.S. at 575, and disproportionate to the harm caused by the defendant's wrongdoing, *see id.* at 580–81. Indeed, much like *Philip Morris*'s concern with damage awards going beyond the "harm potentially caused *the plaintiff*," 549 U.S. at 354 (emphasis in original), a sufficiently large gap between patented feature and total product value can cause a total profit award to go far beyond harm to the patentee, beyond even valid deterrent and punitive concerns, into the domain of constitutional excessiveness.

The Federal Circuit's reading of § 289 is *worse* from a due process perspective than the punitive damages situations of *Gore* and its progeny. With punitive damages, a judge or jury has discretion to make a reasonable award. But under § 289, an infringer "shall be liable" for total profits—even if a judge or jury believes a lesser amount is warranted. *See* note 3 *supra* p. 6 (discussing *Nordock, Inc. v. Sys. Inc.*, 803 F.3d 1344, 1354 (Fed. Cir. 2015)).

Additionally, punitive damages require a showing of culpability, in contrast to the Federal Circuit's interpretation of § 289. So a defendant may be liable for a disproportionately large award even without the "degree of reprehensibility" contemplated in *Gore*. *See* 517 U.S. at 575–78. For example, the defendant may have independently invented the patented design, or the defendant may reasonably believe that an element is functional and therefore not covered by a valid design patent.

And to a certain degree, the total profits rule actually acts punitively. Compensatory damages "are intended to redress the concrete loss that the plaintiff has suffered by reason of the defendant's wrongful conduct." *Campbell*, 538 U.S. at 416 (citing *Cooper Indus.*, 532 U.S. at 432 (citing *Restatement (Second) of Torts* § 903, at 453–54

(1977))). Damages consisting of a defendant's "total profits" awarded under § 289 can far exceed the amount necessary for compensation of the injured plaintiff.

If a court were to "make an award of profits which have been shown not to be due to the infringement," it would be "not to do equity *but to inflict an unauthorized penalty*." *Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U.S. 390, 405 (1940) (emphasis added); *see also Restatement (Third) of Restitution and Unjust Enrichment* § 42, cmt. h (2011) ("[D]isgorgement in excess of net gain would be punitive, as would disgorgement of gains derived from legitimate sources."). By construing § 289 to require an award based on the whole consumer product, the Federal Circuit's rule would award profits "shown not to be due to the infringement" and would thereby "inflict an unauthorized penalty" potentially conflicting with this Court's jurisprudence.

Accordingly, there is good reason to believe that *Gore* and its progeny would be applicable to § 289. Indeed, commentators have observed that this Court "has applied due process excessiveness reviews to a wide variety of sanctions—not just to punitive damages, but also to civil fines, forfeitures, criminal penalties, and other deprivations of liberty or property." Pamela Samuelson & Tara Wheatland, *Statutory Damages in Copyright Law: A Remedy in Need of Reform*, 51 Wm. & Mary L. Rev. 439, 492 (2009). That is because the larger principle, which reconciles *Gore*, *Waters-Pierce Oil*, and *Danaher*, is that a legal or equitable award must show at least some reasonable relationship to the injury being remedied, for that award to pass muster under the Due Process Clause. There is potentially no such reasonable relationship where the actual injury relating to a small

patented design feature is minimal and yet profits on a complete product are enormous.

2. Rejection of the Federal Circuit's interpretation of § 289 also comports with the underlying motivations for the aforementioned cases. Concerns of fairness underlie those holdings that due process disfavors grossly excessive damage awards. *Gore* referred to "[e]lementary notions of fairness" and to "fair notice . . . of the severity of the penalty" in arriving at its rule against grossly excessive punitive damages. 517 U.S. at 574–75.

The potentially excessive nature of the Federal Circuit's interpretation of § 289 may similarly raise fundamentally important concerns of fairness to the defendant. It is unfair because the entire profits of a complex device of many components, built by the hard work of numerous designers, developers, and engineers, are handed to a single design patent holder, ignoring the substantial contributions of the defendant and many other creators. Thus, where the disparity between the value of the design patent (and therefore, the harm to the plaintiff) and the amount of the "total profits" is high, these awards will serve not to compensate the plaintiff for its losses, but rather will represent a windfall to the patent holder and an unexpected total loss to the product manufacturer.

The Federal Circuit's reading of § 289 thus creates a potential and concerning conflict with the constitutional command of due process.

C. Alternative Interpretations of Section 289 Avoid These Constitutional Doubts

"[I]t is well established that if a statute has two possible meanings, one of which violates the Constitution, courts should adopt the meaning that does not do so."

Nat'l Fed'n of Indep. Bus. v. Sebelius ("*NFIB*"), 132 S. Ct. 2566, 2593 (2012). Indeed, "even if a serious doubt of constitutionality [of an act of Congress] is raised, it is a cardinal principle that this Court will first ascertain whether a construction of the statute is fairly possible by which the question may be avoided." *Crowell v. Benson*, 285 U.S. 22, 30 (1932). Where an alternative construction is available, courts "are obligated to construe the statute to avoid such [constitutional] problems." *Immigration & Naturalization Serv. v. St. Cyr*, 533 U.S. 289, 300 (2001) (citing *Ashwander v. Tenn. Valley Auth.*, 297 U.S. 288, 341, 345–48 (1936) (Brandeis, J., concurring)). "[E]very reasonable construction must be resorted to, in order to save a statute from unconstitutionality." *NFIB*, 132 S. Ct. at 65 (quoting *Hooper v. California*, 155 U.S. 648, 657 (1895)).

As discussed previously, *see* Section I *supra* p. 6, the text of § 289 is ambiguous and subject to multiple possible readings, all of which may be characterized as fairly possible. The interpretation proposed by Petitioners is supported by the statutory context, legislative history, and policy aims of the patent system. By contrast, the Federal Circuit's interpretation raises serious questions of constitutionality. In view of those serious questions, this Court should reject the Federal Circuit's construction pursuant to its preference for avoiding constitutionally problematic constructions and to avert future questions regarding the statute's constitutionality.

CONCLUSION

For the foregoing reasons, this Court should reverse the Court of Appeals.

Respectfully submitted,

CHARLES DUAN
Counsel of Record
PUBLIC KNOWLEDGE
1818 N Street NW, Suite 410
Washington, DC 20036
(202) 861-0020
cduan@publicknowledge.org

VERA RANIERI
ELECTRONIC FRONTIER FOUNDATION
815 Eddy Street
San Francisco, CA 94109
(415) 436-9333
vera@eff.org

Counsel for amici curiae

June 7, 2016